

Message Text

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PAGE 01 EC BRU 10454 222053Z

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SUBJECT: EC FISCAL COUNCIL, OCTOBER 21, 1976: RESULTS

1. SUMMARY: THE OCTOBER 21 EC FISCAL COUNCIL CONDUCTED A REVIEW OF THE EC COMMISSION'S SIXTH DIRECTIVE ON THE HARMONIZATION OF VALUE ADDED TAX (VAT) ASSESSMENT BASES. THE MINISTERS REPORTEDLY MADE STEADY PROGRESS ON THE DOSSIER AND HOPE TO COMPLETE THEIR REVIEW AT A FISCAL COUNCIL MEETING ON DECEMBER 16. END SUMMARY.

2. VAT EXEMPTIONS AND CHARGES. THE MINISTERS DISCUSSED AT LENGTH A DUTCH PRESIDENCY COMPROMISE PROPOSAL ON ITEMS TO BE EXEMPTED OR TAXED UNDER A HARMONIZED VAT ASSESSMENT SYSTEM. THE PROPOSAL, A COPY OF WHICH WAS GIVEN TO MISSION OFFICER IN CONFIDENCE BY A DUTCH PERMDEL SOURCE, SETS FORTH THREE LISTS. THE FIRST DEALS WITH THOSE ITEMS TO BE EITHER EXEMPTED OR TAXED DURING A THREE-YEAR INTERIM PERIOD FOLLOWING IMPLEMENTATION OF THE SIXTH DIRECTIVE. THE SECOND LIST (ITEMS TO BE TAXED) AND THIRD LIST (EX-EMPTIONS) WOULD COME INTO EFFECT FOLLOWING THIS INTERIM PERIOD BUT WOULD BE SUBJECT TO COUNCIL REVIEW EVERY FOUR

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PAGE 02 EC BRU 10454 222053Z

YEARS THEREAFTER.

3. OTHER MEASURES. THE COUNCIL ALSO DISCUSSED FIVE OTHER AREAS FOR VAT HARMONIZATION:

A. AGRICULTURAL REGIME. THE COUNCIL REVIEWED RECOMMENDATIONS ON WHETHER AGRICULTURAL PROCEEDS SHOULD BE TAXED UNDER THE NORMAL VAT SYSTEM OR ON A FLAT RATE BASIS.

B. MSALL BUSINESSES. THE COUNCIL DEFERRED UNTIL ITS DECEMBER 16 MEETING A DISCUSSION OF THE LEVEL OF EXEMPTION ON TAXATION OF SMALL BUSINESSES.

C. PROPERTY. THE COUNCIL FAILED TO REACH A DECISION ON TAXATION OF PROPERTY. A COUNCIL SOURCE INDICATED THAT THE MINISTERS WOULD PROBABLY DECIDE LATER TO TAX PROPERTY SALES BUT NOT LAND SALES.

D. ZERO RATES AND REDUCED RATES. THE 1972 SECOND DIRECTIVE ON VAT WHICH ESTABLISHED EXISTING ZERO RATES AND REDUCED RATES, FORBIDS THE INTRODUCTION OF NEW ZERO RATES UNLESS INCLUDED AS PART OF A COMMUNITY HARMONIZATION PROPOSAL. THE IRISH HAVE ALREADY INTRODUCED SUCH RATES AND COULD IN THEORY BE BROUGHT BEFORE THE COURT OF JUSTICE BY THE COMMISSION. NO ACTION HAS BEEN TAKEN AGAINST THEM IN VIEW OF THE CONTINUING DISCUSSION OF THE SIXTH DIRECTIVE; OTHER STATES WOULD LIKE TO FOLLOW THE IRISH LEAD. DENMARK, IN PARTICULAR, WOULD LIKE TO ESTABLISH ZERO RATES ON FOOD SALES.

E. TRANSPORTATION. THE MINISTERS DECIDED ON TAXATION OF NATIONAL ROAD AND RAIL PASSENGER TRANSPORT, ALTHOUGH DIFFERENCES STILL EXIST ON THE TAXATION OF INTERNATIONAL TRANSPORT.

4. NEXT MEETING. AT HIS POST-SESSION PRESS CONFERENCE, DUTCH FINANCE MINISTER DUSENBERG, THE COUNCIL PRESIDENT, STRESSED THAT THE MINISTERS HAD NOT PLANNED TO COMPLETE THEIR REVIEW OF THE DOSSIER AT THIS MEETING AND THAT IT SHOULD BE SEEN AS PART OF AN EXTENDED DISCUSSION WHICH WILL BE CONTINUED DECEMBER 16. TWO AREAS, BANKING INSURANCE AND GOLD TRANSACTIONS, HAVE BEEN REFERRED TO COREPER FOR FURTHER REVIEW PRIOR TO THE DECEMBER COUNCIL. MORRIS

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